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Boom/Bust Shown In Peabody Coal Australia's Profits, Cuts
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The prospects for the Australian coal industry remains hoist to the fortunes of the Chinese economy, with an assist from Japan, South Korea, Taiwan and India.

Even though China's recovery is fitful, demands for coal from the steel, power and cement industries remains low.

But that's not only the case in China; in other major markets in the region the same situation can be found: Japan is moribund, South Korea sluggish, Taiwan the same.

That's why more Australian iron ore producers are selling unwanted product on the spot market and why coal prices have been slashed for the current contract year (along with iron ore).

The most recent quarterly result for one of the country's major coal producers and exporters illustrates the fading boom and the developing slump.

Hard coking coal prices are falling from around \$US300 a tonne to around \$US128, while thermal coal prices have fallen from \$US125 tonne in the year to March, 2009, to average around \$US75 a tonne for the current shipping year.

Peabody Australia is part of the world's biggest privately-owned coal group, Peabody Energy, which late yesterday revealed plans to take a 15% stake in small local producer, White Energy, and entered into a joint venture in the US for a coal upgrading plant.

Peabody Australia is one of the major producers and exporters in Australia, and its recent quarterly figures show the boom and about to felt bust sides of the industry.

Peabody revealed that in response to continuing weakness in export markets, it is trimming its Australian coal production for a second time in 2009, despite earning a record profit in the March quarter.

Peabody says it is cutting production closer to 20 million tonnes of thermal and coking coal this year from the previous range of 22 to 24 million. The group produced 24 million tonnes in 2008.

Earnings from Australia in the March quarter jumped to \$US83.2 million tonnes from the \$US7 million tonnes earned in the same quarter of 2008.

That was on sales which hit \$US367.4 million in the three months, up from \$US296.5 million.

Peabody said that its Australian mining operations increased adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) compared to the prior year primarily due to the higher contract pricing gains of \$US166.2 million.

Peabody said in its latest quarterly report this boost was partially offset by volume decreases (\$US64.5 million), the cost impact of three longwall moves (\$US34.7 million) and increased government-imposed royalties related to higher coal pricing (\$US13.9 million).

It said its Australian mining operations' average sales price increased 49.8% over the prior year reflecting higher contract pricing on annual contracts that began in the second quarter of 2008.

Those saw prices for hard coking coal reach \$US300 a tonne in contracts with steelmaker in Japan, China. Korea and other markets, while thermal coal prices jumped to around \$US125 a tonne in deals with power companies, cement groups and other buyers.

Soft and pulverised injection quality coals were priced down from the hard (metallurgical coals).

"The price increases were partially offset by a volume decrease of 18.2% from the prior year due to destocking of inventory and lower capacity utilization at steel customers (2009 metallurgical coal shipments of 0.8 million tons fell 1.2 million tons below prior year)," Peabody said.

The company said its global first quarter sales volume of 59.6 million tonnes was slightly below prior year levels reflecting lower production in the Powder River Basin to meet lower demand and deferred customer shipments in Australia driven primarily by lower demand due to the global economic downturn.

"Sales volume was also negatively affected by winter storms in the Powder River Basin.

Group revenues grew \$US194.0 million, or 15.3%, to \$US1.46 billion on improved pricing in all regions and EBITDA increased \$US108.5 million, or 37.3%, driven mainly by the \$US76 million rise in Australia's contribution because of higher prices for coking and thermal coal

"In light of reduced global demand, Peabody is again trimming its 2009 Australia coal production targets, Peabody Energy said in its March quarter SEC filing in the US.

"The company has approximately 5 million tons of Australia thermal coal production to be priced for 2009, and 9 to 10 million tons available for 2010.

"(Peabody has 5 to 6 million tons of Australian-sourced seaborne thermal coal available to be priced for the last three quarters of 2009 and 10 to 11 million tons for 2010.)

"Peabody has 3 to 3.5 million tons of metallurgical coal production being repriced for the remainder of 2009, with 6 to 7 million tons available for 2010.

"(Peabody has 4 to 5 million tons of Australian-based metallurgical coal available to be priced for the last three quarters of 2009, reflecting as much as 2 million tons of production cuts due to expected softer demand, and 7 to 8 million tons available to be priced for 2010).

"Peabody said in January that it was cutting Australian metallurgical coal production for 2009 by up to 2 million tons due to the decline in worldwide steel demand.

"The company's total Australia production is expected to be 22 to 24 million tons in 2009 compared with 2008 sales of approximately 24 million tons." Thermal coal sales were also trimmed.

Peabody said that it had "begun to reach settlements for Australian coal contracts in the new fiscal year off the benchmark price of \$US128 per tonne (\$US116 per ton) for the highest quality hard coking coal and \$US80 to \$US90 per tonne for semi-hard and PCI products.

"Full terms with all customers are not yet clarified, including expected volumes for the new fiscal year, as well as carryover pricing for shipments not yet fulfilled from the prior fiscal year.

"Thermal coal contracts are expected to be settled at approximately \$US70 per tonne. Both metallurgical and thermal coal contracts are settling at the second highest levels in recent years."

For hard coking coal, the price cut is substantial: around \$US170 a tonne. For thermal coal, the price cuts will be around \$US55 a tone.

That will slash Peabody's earnings from this quarter onwards, and those of BHP Billiton, Rio Tinto, Xstrata and the other exporters.